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UNCLAS SECTION 01 OF 02 CARACAS 000321

SIPDIS

SENSITIVE
SIPDIS

TREASURY FOR KLINGENSMITH AND NGRANT
COMMERCE FOR 4431/MAC/WH/MCAMERON
NSC FOR DTOMLINSON
ENERGY FOR CDAY, DPUMPHERY, AND ALOCKWOOD
HQ SOUTHCOM ALSO FOR POLAD

E.O. 12958: N/A

TAGS: [ECON](#) [ECPS](#) [ENRG](#) [PGOV](#) [VE](#)

SUBJECT: VERIZON AGREES TO SELL CANTV SHARES TO THE BRV

REF: A. CARACAS 59

[1](#)B. CARACAS 84

[1](#)C. CARACAS 302

[1](#)1. (SBU) Four days after AES agreed to sell the BRV its interest in EDC (Reftel A), the BRV and Verizon announced February 12 that they had struck a deal for the sale of Verizon's 28.51 percent controlling interest in CANTV. Verizon will be paid USD 572 million for its shares and has indicated that it is pleased with the deal. The price is less than Mexican telecom investor Carlos Slim's April 2006 tender offer, but higher than the current market value for these CANTV shares. At the signing ceremony, Vice President Jorge Rodriguez underscored that Venezuela had recovered its "sovereignty," while Telecommunications Minister Jesse Chacon announced the birth of a new CANTV that would expand its service to rural southern Venezuela. Despite the revolutionary rhetoric, the BRV again seemed eager to prove to the international community, especially the United States (both to investors and the USG), that it respects international standards of prompt, adequate, and effective compensation. End Summary.

The Deal

[1](#)2. (SBU) The BRV and Verizon signed a Memorandum of Understanding during a ceremony the evening of February 12, only four days after AES agreed to sell the BRV its 82 percent interest in EDC for USD 739 million. Verizon Vice President for Development, John Diercksen, signed for Verizon and Vice President Jorge Rodriguez and Minister of Telecommunications Jesse Chacon signed for the BRV. The BRV will purchase Verizon's 28.51 percent controlling stake in CANTV for USD 572 million, USD 17.85 per ADR. This price is below that of Mexican telecom investor Carlos Slim's USD 677 million offer to Verizon for its stake in CANTV in April 2006, but higher than CANTV's current per share market value. At close of business on February 12, CANTV's ADR price was USD 16.08. We have also heard rumors that CANTV will soon announce a USD 3 dividend per ADR to make up the price difference with Slim's 2006 tender offer. In a statement lasting less than a minute, a somber Diercksen said Verizon was pleased with the deal and appreciated the BRV's willingness to negotiate quickly. During early trading on

February 13, CANTV's ADR price was climbing towards the tender price. At 11 am New York time, the price had reached USD 17.30, up 7.59 percent from the price at close of business on February 12.

13. (SBU) The BRV will own 35.1 percent of CANTV after acquiring Verizon's shares. (Note: The BRV currently owns 6.6 percent of CANTV through BANDES. End Note.) Spanish telecom giant Telefonica owns 6.9 percent of CANTV. Over half of CANTV's shares, 51.4 percent, are traded on the Caracas Stock Exchange and as ADRs on the New York Stock Exchange. In order to obtain the funds to acquire a majority stake in the company, the BRV will launch two tender offers, one in the local market and one in the United States. Legal counsel for Brandes Investment, a U.S. investment company that owns 15 percent of CANTV through the ADR market, previously told EconOff that the company had filed an ICSID arbitration claim against the BRV two weeks ago. While this appears to be a negotiation strategy, it shows that more posturing and negotiations can be expected in the BRV's continued acquisition of CANTV shares.

Telecommunications Minister Chacon: The New CANTV

14. (SBU) At the signing ceremony, Jesse Chacon proclaimed "today begins the birth of a new CANTV. It will be truly national within the model of social management moving forward to socialism in the 21st century." He said CANTV would universalize internet access, expand its service, and invest in infrastructure development in rural southern Venezuela, investment that the private sector had considered unprofitable. He continued in the vein that CANTV would

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expand its coverage to all Venezuelans, in every corner of the country, and announced that a new rate structure would take effect, based on "justice." Commenting on the nationalization process, Chacon said that signing ceremony knocked down the series of domestic and international lies that intended to stigmatize the way that the Venezuelan state proceeded to nationalize these strategic companies for national sovereignty.

Vice President Rodriguez: Recovering National Sovereignty

15. (SBU) The drum beat of recovering national sovereignty was the focus of Vice President Rodriguez' comments. "When we have CANTV in the hands of the state, Venezuelans will feel the recovery of sovereignty, they will feel it in better service, more solidarity, and a greater presence of the state in its telecommunications policy in every corner of the country," said Rodriguez. He also offered his take on historical privatizations in Latin America, stating that between 1985 and 2000, strategic sectors were nationalized for USD 80 billion, promising social development and delivering misery and poverty. CANTV, according to Rodriguez, was a monopoly for nine years, with the most expensive rates in the world, leaving 40 percent of urban residents and 75 percent of the rural population without telecommunications access. He also accused the CANTV Board of Directors of complicity in the 2002 coup against Chavez and other attempts to destabilize the government. (Note: CANTV President Gustavo Roosen tendered his resignation on February 13.) Despite the Bolivarian rhetoric, Rodriguez also emphasized the transparency of the transaction, as he did at the EDC ceremony. "We are recovering this company at a price that we discussed transparently with Verizon, and appreciate the opportunity to resolve this point rapidly, transparently, and clearly," said the Vice President.

The Impact of the Deals on AES and Verizon

¶6. (SBU) AES' sale of its 82 percent stake in EDC has a greater impact on its overall business operations and value than Verizon's sale of 28.5 percent of CANTV. EDC represents a USD 739 million investment for a company whose market capitalization is roughly USD 15 billion. In contrast, Verizon's investment in CANTV is a minor asset for a company whose capitalization is over USD 110 billion. AES involvement in the Venezuelan market and control over EDC was deeper and more comprehensive than Verizon's relationship with CANTV. AES controlled over 80 percent of EDC and was actively engaged in management of the company. AES insisted that minority shareholders be treated fairly to preserve its reputation if it wanted to return to Venezuela. Despite having a controlling interest, Verizon never sought to manage CANTV's operations. Moreover, Verizon was already trying to sell CANTV and its motivation was to maximize value, whether the purchaser were Carlos Slim or the BRV.

Comment

¶7. (SBU) While the EDC sale was simply a business transaction for the BRV, CANTV has always meant more. Chavez firmly believes that telecommunications is a strategic sector and, along with key BRV ministers, believes in principle that CANTV should never have been privatized (Reftel B). Statements made by Rodriguez and Chacon at the CANTV signing were far more acerbic and infused with revolutionary rhetoric than the remarks on February 8 at the EDC ceremony. Despite the revolutionary rhetoric in Rodriguez' comments and denunciations of capitalism, the Vice President repeatedly highlighted the transparency of the negotiations with Verizon, showing that the BRV remains concerned about international perceptions of its nationalization campaign.
End Comment.

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